Privatization of Army Lodging (PAL)

Rhonda Hayes, Chief
IH&P Capital Ventures

January 23 2013

PAL Objectives & Characteristics

PAL Program Objectives

- Eliminate substandard Army lodging
- Improve quality of life for Soldiers and their Families
- Use of private sector capital and best practices
- Overcome $1B+ revitalization backlog
- Provide for long-term sustainment of the facilities
- Capitalize on success of a proven initiative
- Offer rooms across the privatized portfolio at a weighted cost of 75% of the prevailing lodging per diem *for Official Travelers*

Key Program Characteristics

- Natural expansion of a proven initiative (RCI)
- Facilities convey; 50-year Ground Lease
- Private sector institutes best practices and commercial standards
- No government cash equity or guarantees
- Excess cash flow is trapped in a Reinvestment Account dedicated to long-term facility sustainment
- Owner earnings limit service earned at ne
- Critical in supporting [illegible] Institutional Training

– **PAL Lessee is "Rest Easy, LLC"**
  - Lend Lease is Sole Member of LLC and serves as developer/design-builde
  - InterContinental Hotels Group (IHG) is their contracted hotel operator
– **PAL Group A transferred to private operations on 15 August 20[illegible]**
– **PAL Group B transferred to private operations on 12 August 2011**

PAL Group C Progress Timeline

Jun 2011 LTG Lynch STRATCOM to Group C installations to prepare for Group C due diligence in preparation for implementation

Oct 2011 As per the Army option in the PAL RFQ, DASA (IH&P) offers PAL Group C to Lend Lease/IHG & they accept

Oct 2011 PAL Group C site visits begin & continue through March 2012

Jul 2012 LTG Ferriter OPORD 12-263 to support Group C Transition

Jul 2012 Group C development scopes presented to and approved by Garrison Commanders

Sep 2012 DASA IH&P issues Notice to Transition to Lend Lease

Dec 2012 Lender $425M term sheet executed

Dec 2012 IMCOM distributes OPORD Annex for specific action

Jan 2013 Operational bi-weekly checklist calls begin

Feb 2013 Installation-specific plans to be approved by Garrison Cmdr

Feb 2013 Employee notifications to be issued

RCI v. PAL : Key Program Differences

RCI	PAL
➢ Army is 49% Project Member in LLC	➢ Army not an LLC member; Lease controls
➢ Installation-based Projects allows for local government and private decision-making	➢ Portfolio-based Project necessitates centralized decision-making
➢ Neighborhood cash flow cross-collateralized	➢ Installation cash flow is cross-collateralized
➢ Local decisions impact only that installation	➢ Local decisions can impact 40 installations
➢ Lease, DB contract, mortgage, & fees terms vary project to project	➢ One Lease and set of governing documents for every site with only minor site variances
➢ Designs and levels of service vary	➢ Designs & levels of service are standardized
➢ Multiple partners & varied documents	➢ Single partner & one set of documents
➢ Size of family housing communities is significant relative to the main cantonment	➢ Hotel operations are only a handful of buildings relative to the main cantonment
➢ Complexities and sensitivities surrounding family housing require on-site government oversight post-privatization	➢ On-post hotel operations are less complex and less sensitive and do not require on-site post-privatization oversight
➢ Funding for residual installation staff	

PAL: Lessons Learned

- Address Poor Facility Conditions
  - An aggressive “Early Wins” program was developed to immediately address life-safety & critical repair issues post-closing
- Address Poor Employee Communication
  - PAL only sets transition dates once when it is sure they can be met
  - Communication on transition milestones are conveyed to employees through a on-site hotelier presentations and job interviews
  - All hotelier actions are more closely coordinated with Army Lodging leadership
- Formalize Program Oversight
  - 7 May 2012 ASA IEE Delegation clarifies previously unclear lines of communication regarding transaction & major decision authorities, asset management & oversight responsibilities and lease administration
- Better Engage Off-Post Community
  - PAL works with more closely with local PAO to ensure accurate information is distributed to facilitate off-post community buy-in to development plans
- Standardize DV accommodations and policies
  - Hotels redesigned to include an executive level top floor for DVQs
  - Standard Operating Procedure for DVs developed to include greater coordination with local Protocol/Executive Services offices

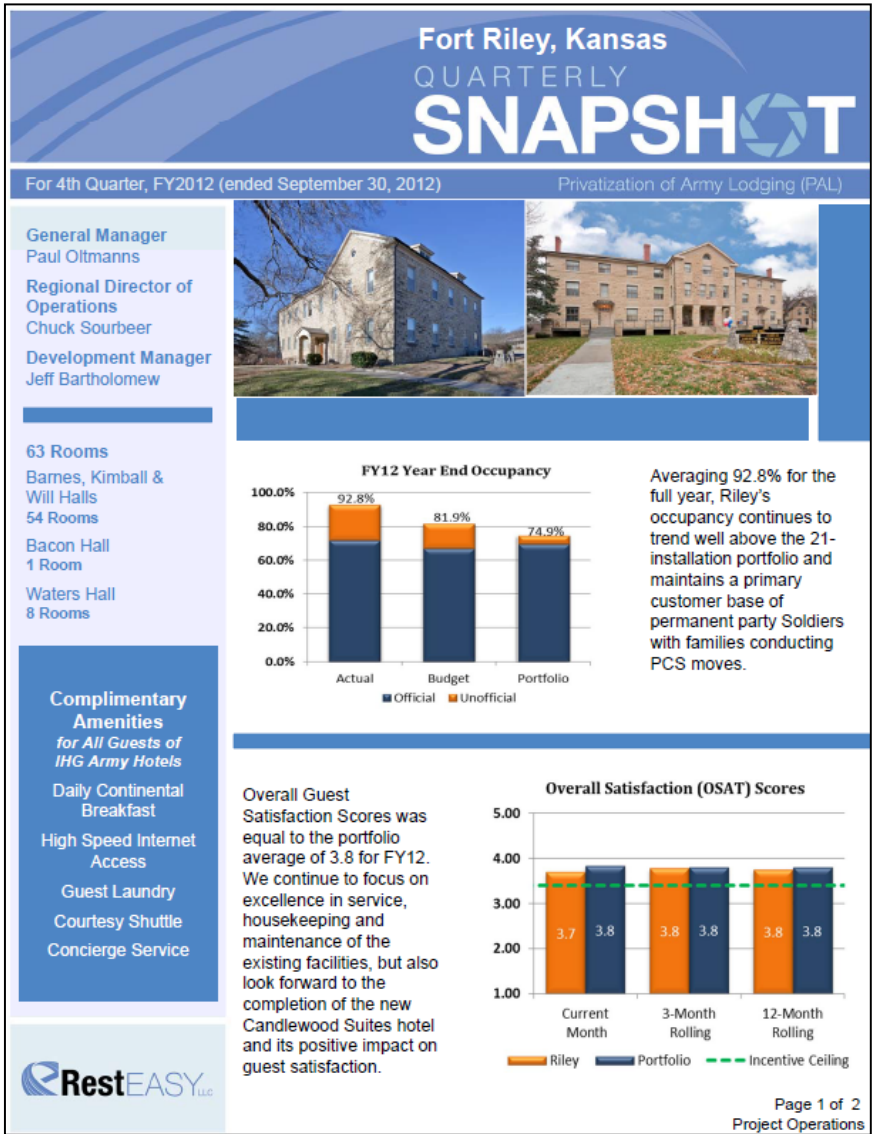
PAL : Army Roles & Responsibilities

- ACSIM-PPD
  - Portfolio Oversight & Monitoring key performance metrics
    - Financial (occupancy, rate, revenue, net operating income)
    - Operational (guest satisfaction scores, GC satisfaction scores)
    - Developmental (timeliness of completion, change order approvals)
      - IMCOM Garrisons
  - Day-to-Day interface with the private partner, as required
  - Installation PAL POC is designated by GC (typically RCI Manager)
  - IHG GM serves as adjunct staff member
  - Lend Lease Development Mngr provides regular performance & progress updates
  - Approval of Installation Specific Plans (environmental, ATFP, safety, etc)
  - Annual Satisfaction Scoring for Incentive fee payments
- USACE-Norfolk
  - Lease Administration & Management including Lease compliance
  - Official Document Repository
  - Executes lease amendments and supporting real estate documentation
- DASA (IH&P)
  - Congressional Approvals
  - Execution of Transaction Documents
  - Major Decision Authority

Quarterly Reports & Meetings

Operations

- Quarterly Report to Garrison Cmdr provides an update on installation operational performance
- Report shows occupancy benchmarked against budget and portfolio performance & overall customer satisfaction (OSAT) scores for current month, quarter and 12 months
- General Manager trained to be responsive to installation command and stakeholders
- FY12 guest OSAT was 3.79 out of 5
- PAL hotels scored an overall 4.24 out of 5 on Garrison Commander annual satisfaction evaluation with a 4.25 specifically on an evaluation of the hotel's support of the



Quarterly Reports & Meetings

Development

- Quarterly Report to Garrison Cmdr provides an update on renovation and construction progress
- Report contains key milestone dates and tracks completion percentage and units on-line
- Each installation has a Lend Lease development manager assigned to it and the DM is available to meet with the installation at any time upon request
- DMs are the installation's go-to contact for all development or owner-related issues
- Design changes or unresolved issues are addressed by the ACSIM or DASA IH&P based on the Major Decision thresholds

RestEASY LLC

Construction Progress

Construction commenced on the new 100-room Candlewood Suites hotel in late June, and final completion is scheduled for October 2013.

BUILDING	START DATE	END DATE	GSOW STATUS	UNITS ON LINE (AS OF SEP 30)
Candlewood Suites	Jun 2012	Oct 2013	In Progress	0
Bacon Hall	Apr 2013	May 2013	Historic Review	1
Waters Hall	Apr 2013	May 2013	Historic Review	8

Development Update

Renovations are expected to begin on Bacon Hall and Waters Hall in Spring 2013 with a duration of approximately three months. The scope of work will include exterior upgrades and repairs in addition to replacement of interior finishes and furnishings.

Rendering of a future PAL Candlewood Suites.

PAL Portfolio Quick Stats

- **Over 8,200 rooms across 21 installations** in the A/B portfolio
- **$104 million** spent to date on renovations since August 2009
- **7 Holiday Inn Express® hotels** having a combined total of **1,277 rooms** delivered to date (located at Hood, Sill, Rucker, Polk, Hamilton, Wainwright)
- **Over 378 million Priority Club® Rewards points** awarded to guests of IHG Army Hotels
- **Nearly 7,000 more rooms across 20 Group C installations** awarded to Project (3,900 rooms anticipated to transfer by spring 2013 and remainder to transfer in 2015)

Other Project Highlights

The fourth quarter of FY 2012 included the ground breaking event at Yuma Proving Ground for the Candlewood Suites hotel as well as the progression of construction on the other Candlewood Suites located at Joint Base San Antonio (Fort Sam Houston), Texas and Fort Riley, Kansas.

Work at Group B installations to address life, safety and critical repair improvements neared completion during the fourth quarter of FY 2012.

The fourth quarter also marked the third anniversary for the Group A locations and the first anniversary for the Group B locations. The eleven installations in Group B celebrated the 1st anniversary milestone with festivities for both employees and guests.

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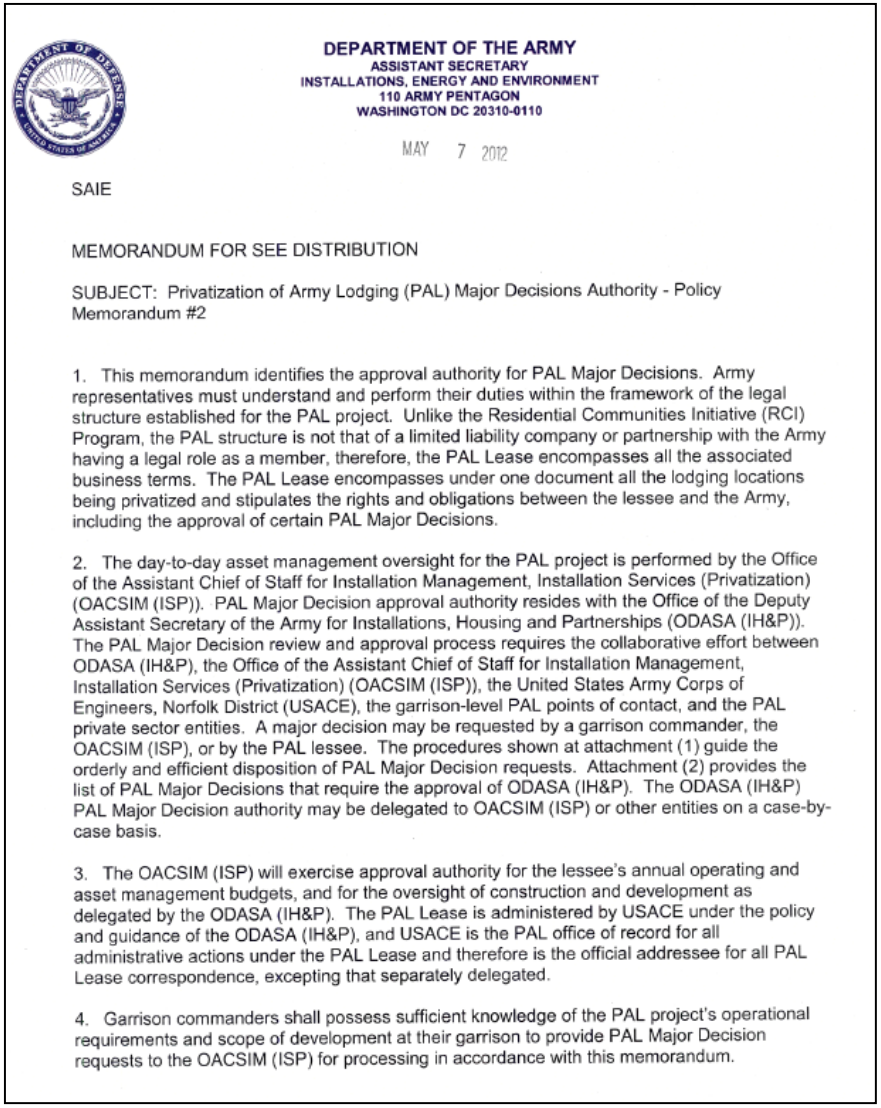
Development & Construction

PAL : Major Decisions

- Lease uses “Garrison Commander” for installation-specific approvals and “Lessor” for all other Army approvals
- DASA IH&P CVD negotiates the deal terms, sets the scope and closes the transaction
- DASA IH&P CVD also retains authority over only significant “Major Decisions”
- There are 25 Major Decision triggers and examples include:
  - Adding Government Cash or Real Estate
  - Amendments to Lease or other Key Documents (e.g. DBA, LMA, Lockbox)
  - Change Orders over a particular dollar threshold
  - Changes to end-state room counts, branding requirements, financial terms
  - Issues relating Noncompliance and Default
- Major Decisions are elevated through the ACSIM-PPD Office with comments from the installation, the private partner and, if applicable, the independent construction consultant and lender
- Retaining Major Decision Authority at Secretariat Level
  - Utilizes the Transaction expertise that resides at DASA IH&P
  - Ensures business-case basis for important project decisions
  - Insulates projects from short-term Command desires in lieu of long-term business decisions
- Asset Management delegated to ACSIM/IMCOM

PAL : Roles & Responsibilities



DEPARTMENT OF THE ARMY
ASSISTANT SECRETARY
INSTALLATIONS, ENERGY AND ENVIRONMENT
110 ARMY PENTAGON
WASHINGTON DC 20310-0110

MAY 7 2012

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MEMORANDUM FOR SEE DISTRIBUTION

SUBJECT: Privatization of Army Lodging (PAL) Major Decisions Authority - Policy Memorandum #2

1. This memorandum identifies the approval authority for PAL Major Decisions. Army representatives must understand and perform their duties within the framework of the legal structure established for the PAL project. Unlike the Residential Communities Initiative (RCI) Program, the PAL structure is not that of a limited liability company or partnership with the Army having a legal role as a member, therefore, the PAL Lease encompasses all the associated business terms. The PAL Lease encompasses under one document all the lodging locations being privatized and stipulates the rights and obligations between the lessee and the Army, including the approval of certain PAL Major Decisions.

2. The day-to-day asset management oversight for the PAL project is performed by the Office of the Assistant Chief of Staff for Installation Management, Installation Services (Privatization) (OACSIM (ISP)). PAL Major Decision approval authority resides with the Office of the Deputy Assistant Secretary of the Army for Installations, Housing and Partnerships (ODASA (IH&P)). The PAL Major Decision review and approval process requires the collaborative effort between ODASA (IH&P), the Office of the Assistant Chief of Staff for Installation Management, Installation Services (Privatization) (OACSIM (ISP)), the United States Army Corps of Engineers, Norfolk District (USACE), the garrison-level PAL points of contact, and the PAL private sector entities. A major decision may be requested by a garrison commander, the OACSIM (ISP), or by the PAL lessee. The procedures shown at attachment (1) guide the orderly and efficient disposition of PAL Major Decision requests. Attachment (2) provides the list of PAL Major Decisions that require the approval of ODASA (IH&P). The ODASA (IH&P) PAL Major Decision authority may be delegated to OACSIM (ISP) or other entities on a case-by-case basis.

3. The OACSIM (ISP) will exercise approval authority for the lessee's annual operating and asset management budgets, and for the oversight of construction and development as delegated by the ODASA (IH&P). The PAL Lease is administered by USACE under the policy and guidance of the ODASA (IH&P), and USACE is the PAL office of record for all administrative actions under the PAL Lease and therefore is the official addressee for all PAL Lease correspondence, excepting that separately delegated.

4. Garrison commanders shall possess sufficient knowledge of the PAL project's operational requirements and scope of development at their garrison to provide PAL Major Decision requests to the OACSIM (ISP) for processing in accordance with this memorandum.

On 7 May 2012, Ms. Hammack, Asst Secretary of the Army (Installations, Energy & Environment) signed the PAL Major Decisions Memo

Consistent with RCI, the Memo delegates asset management oversight to the ACSIM/IMCOM

Retains certain “Major Decisions” at the Deputy Asst Secretary of the Army (Installations, Housing & Partnerships)

USACE-Norfolk maintains responsibility for all real estate and lease actions

Roles & responsibilities are currently under review by RCI/PAL